FOR PARTICIPANTS ONLY

DP/STR(2)/4
29 March 1979

ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Second Meeting of the South-east and East Asia Group of Consultants in connexion with the Implementation of ESCAP Resolution 180 (XXXIV): Strategies for the 1980s

16-21 April 1979
Bangkok

PUBLIC POLICY, INCOME DISTRIBUTION AND LEVEL OF WELFARE IN THE PHILIPPINES*

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PUBLIC POLICY AND INCOME DISTRIBUTION IN THE PHILIPPINES, A SURVEY

by

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The post-independence economic development experience of the Philippines (1946 to the present) has not improved and may have even worsened the distribution of the nation's income and wealth. Empirical data and fairly substantive works on income distribution are available. These are surveyed for this paper in order to bring out the dimension and some aspects of the problem. It is also important to note the extent of interest in the problem by the number of works done on the subject. Finally, we will trace briefly the development and direction of the policy related to distribution and welfare has taken. Concern over distribution and welfare is a recent development in the public mind, particularly among political leaders. This might explain the difference in statement of social goals in the present (Marcos) and earlier (1947-65) administrations. We find in the current Five-Year Development Plan, however, that there are no substantial changes for discarding well-entrenched existing programs of privilege granting. It will be seen that though there is a strong sentiment about the need to raise the standard of living of the poor as a whole

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and in specific areas such as housing and nutrition. The present mix of development and welfare programs is not likely to result in substantial increase of welfare of target groups as envisaged in the present Five-Year Development Plan. The programs remain heavily weighted by development incentives which in the past have proved to be regressive.

The paper will first give a survey of the distribution and welfare problem facing the nation and the main conclusions of the studies on the topic. Then, it will identify and discuss policies that have major impact on distribution. These policies may fall in two sets, one set consists of development strategies that have indirect but very substantial redistributive impact. The other set relates to fiscal policy which has been offerred traditionally as the main tool for redistribution. Included in the second set of policies or programs is public finance. The paper tries to show that the regressive impact of development programs overwhelms the progressive effects of income taxation and welfare programs.

1. The Distribution of Income and Level of Welfare of the Poor, 1956-75

In this section, we first describe, broadly, then in greater detail, equity and welfare situation in the past two decades. Table 1 gives a summary empirical picture of the distribution of income at 5-year interval from 1956-75. It is seen that for the nation as a

Table 1

Indicators of Income Distribution: Total, Rural and Urban, 1956, 1961, 1965 and 1971

Indicator	1956			1961			1965			1971		
	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban
Quintile of families (percentage of total family income)												
Lowest 20 per cent	4.5	7.0	4.5	4.2	5.9	3.8	3.5	5.0	3.8	3.8	4.4	4.6
Second 20 per cent	8.1	11.1	8.0	7.9	11.8	7.5	8.0	9.5	8.0	8.1	8.9	9.4
Third 20 per cent	12.4	14.7	12.2	12.1	13.5	12.5	12.8	15.3	12.0	13.2	13.9	13.4
Fourth 20 per cent	19.8	21.1	20.0	19.3	21.9	19.5	20.2	23.0	18.7	21.1	21.8	21.9
Top 20 per cent	55.1	46.1	55.3	56.4	46.9	57.1	55.4	47.2	57.5	53.9	51.0	50.7
Top 10 per cent	39.4	30.1	39.6	41.0	31.1	40.9	40.0	30.0	41.7	38.9	34.4	33.4
Top 5 per cent	27.7	.	.	29.0	.	.	28.7	.	.	24.3	22.6	22.6
Index of quintile inequality	0.44	0.34	0.44	0.46	0.36	0.46	0.45	0.38	0.47	0.40	0.41	0.41
Gini coefficient	0.48	0.38	0.49	0.50	0.40	0.52	0.51	0.42	0.53	0.49	0.46	0.45
Mean income (current pesos)	1471	989	2427	1804	1203	2970	2541	1755	4405	3736	2818	5867
Index, current price	100	100	100	123	123	123	173	178	182	254	285	242
Index, constant price	100	100	100	111	110	111	126	130	133	117	132	111
Mean urban income/mean rural income	2.45			2.47			2.51			2.08		

Source: ILO Mission Report, Sharing in Development, Geneva 1974.

Table 1a (Continued)

Principal Source of Income	Distribution of Families (in percentages) (1)	Distribution of Income (in percentages) (2)	Mean Family Income (in Pesos per annum) (3)	Gini Ratio (4)	Weighted Gini Ratio (5)=(2)x(4)
		RURAL AREAS			
1. Wages & Salaries	19.83	14.91	1910.33	0.3648	0.0544
2. Trading	3.37	5.01	2289.29	0.3741	0.0113
3. Manufacturing	2.67	1.05	1570.09	0.4112	0.0068
4. Transport	0.63	0.48	1935.77	0.3242	0.0016
5. Other Enterprises	0.28	0.24	2177.74	0.3311	0.0008
6. Practice of Profession or Trade	0.28	0.14	1270.35	0.4004	0.0006
7. Farming (incl. livestock & poultry raising)	36.91	18.75	1290.65	0.4535	0.0850
8. Fishing, forestry & hunting	3.44	2.91	2149.25	0.4097	0.0119
9. Share of crops, livestock & poultry raised by others	1.61	1.74	2745.85	0.5176	0.0090
10. Rents received for land, buildings, rooms, etc.	0.07	0.24	8710.96	0.4404	0.0011
11. Other Sources	1.20	4.51	9094.08	0.2724	0.0123
Total Rural Areas	70.35	48.58	1755	0.4226	0.1948

Table 1a Distribution of Families and Income, Mean Family Income, Gini Ratio and Weighted Gini Ratio by Source of Income and by Urbanization Group, 1965

Principal Source of Income	Distribution of Families (in percentages) (1)	Distribution of Income (in percentages) (2)	Mean Family Income (in Pesos per annum) (3)	Gini Ratio (4)	Weighted Gini Ratio (5)=(2)x(4)
Total Philippines	100.00	100.00	2541	0.4972	0.4318
MANILA & SUBURBS*					
1. Wages & Salaries	7.05	13.41	4832.73	0.4419	0.0593
2. Trading	0.70	1.48	5371.76	0.4481	0.0066
3. Manufacturing	0.21	0.41	4960.41	0.4853	0.0029
4. Transport	0.04	0.27	17149.70	0.2340	0.0006
5. Other Enterprises	0.17	0.41	6127.56	0.3535	0.0014
6. Practice of Profession or Trade	0.12	1.11	23501.44	0.3142	0.0035
7. Farming (incl. livestock & poultry raising)	0.04	0.06	3811.04	0.4299	0.0003
8. Rents received for land, buildings, rooms, etc.	0.07	1.04	37747.49	0.4962	0.0052
9. Other Sources	0.52	4.98	24332.05	0.6188	0.0308
Total Mla. & Sub.	8.92	21.17	6590	0.4973	0.1097

* Fishing, forestry & hurting and Share of crops, livestock and poultry raised by others are included within Other Sources for Manila and Suburbs, 1965.

Table 1a (Continued)

Principal Source of Income	Distribution of Families (in percentages) (1)	Distribution of Income (in percentages) (2)	Mean Family Income (in Pesos per annum) (3)	Gini Ratio (4)	Weighted Gini Ratio (5)=(2)x(4)
		OTHER URBAN AREAS			
1. Wages & Salaries	12.11	14.72	3088.28	0.4316	0.0635
2. Trading	2.07	3.30	4050.39	0.5804	0.0192
3. Manufacturing	0.87	0.84	2453.09	0.4253	0.0036
4. Transport	0.47	0.45	2432.58	0.4635	0.0021
5. Other Enterprises	0.39	0.59	3843.62	0.5033	0.0030
6. Practice of Profession or Trade	0.24	0.50	5293.12	0.4486	0.0022
7. Farming (incl. livestock & poultry raising)	2.65	2.00	1917.51	0.5257	0.0105
8. Fishing, forestry & hunting	0.57	0.42	1872.09	0.4799	0.0020
9. Share of crops, livestock & poultry raised by others	0.37	0.98	6729.41	0.6071	0.0059
10. Rents received for land, buildings, rooms, etc.	0.06	0.19	8045.54	0.3314	0.0006
11. Other Sources	0.93	4.26	11638.03	0.3485	0.0148
Total Other Urban Areas	20.73	28.25	3463	0.4861	0.1274

whole, the Gini ratio hardly moved from .50. The Gini's for rural as well as urban sectors, however, both rose over time, with rural Gini rising from .38 in 1956 to .46 in 1971. Urban Gini rose first from .49 in 1956 to .53 in 1965 but then it fell quite rapidly to .45 in 1971. The rise in rural Gini results partly from the drop in the income shares of the lowest two and three quintiles from 18% to 13%, and from 33% to 27%, respectively. For the poorest 60% of urban families, their share first dropped from 25% to 24%, then rose to over 28%. Looking at some measures of absolute standard of life, in real terms mean income of the lowest quintile families increased only very slightly from ₱480 to ₱550, or by 14% and the next quintile income even declining slightly from ₱943 to ₱920 from 1956 to 1975.

Three studies are referred to here to give some detail to the aggregate picture described above: Encarnacion (1974), Mangahas (1974) and Tan (1978).

Mangahas decomposed the National Gini ratio into each category (of families) inequality and between categories inequality. Using fairly detailed groupings of families into ten (10) regions and ten (10) income sources, he found that more than 90% of inequality as measured by the Gini ratio could be attributed to the inequality within each of these groupings. Inequality of income between regions and source of income accounted for a rather small proportion of the over-all Gini ratio. In support of the above facts we reproduce Mangahas tables

which give among others, the Gini ratios for each family group used in the study. It is seen that the Ginis are high for all regions with a range of .42 to .54 in 1971; a similar range in 1961 and a narrower one in 1965 - .43 to .50. The range in the Ginis is wider for groupings by income source with incomes from share in crops, livestock and poultry raised by others, manufacturing and other enterprise including professional services showing the highest degree of inequality .59, .58 and .57, respectively. There was also high inequality among rent receivers: .54.

In 1971, the data was further broken down into eight (8) sources of income for three areas: Manila, other urban, and rural areas, or a total of 24 sub-groups (8 income groups by 3 by areas). The Ginis ranged from .24 for incomes from trade in Manila to .80 for rental of land buildings and rooms for rural Philippines. The Ginis fall above .45. The table also shows the variation in mean incomes among the various family groupings.

We now focus attention to the absolute standard of life of the lowest two quintiles and its movement over time. Mean real income of the first quintile remained at about ₱500 per year level, and that of the next quintile at a little over ₱900. Several studies on poverty incidence established poverty lines above the latter income level /Abrera 1974, Tan 1974, Tan 1978/. The lattest study probably provides the most conservative and reliable estimates

of poverty line and poverty incidence. In this study, a bare minimum standard basket of goods to meet basic needs of a typical Filipino family of six was used in establishing a poverty line. A poverty line is defined by the cost of this basket of goods. Poverty lines and poverty incidence were estimated for 1965, 1970 and 1975 for each of the 10 regional breakdowns of the country. The first two studies used two breakdowns - rural and urban thus a more aggregative method. The 1978 study estimated separate poverty lines for each of the 10 regions. It was found that there was fairly substantial variation in prices of basic commodities among these geographical areas and the author wanted to see how far such variation would affect the poverty estimate. The study first computed indexes of price variation (Theil, 1967) using actual prices of basic consumption items - rice, varieties of fish and vegetables, rent, etc. Poverty lines for each region was established on the basis of these prices.

An operational definition of poverty line used in the study was one that provides an absolute minimum standard in food, clothing, shelter and fuel, education and health. In food we take the minimum cost basket that meets the recommended nutritional allowances. In addition to these we can consider the following to compose objective minima: shelter and clothing for protection against the elements; health care needed to prevent and recover from diseases prevalent in the community; the level of education to achieve literacy and numeracy,

abilities that provide one with communication and other skills needed for a minimum degree of social, political and economic participation. Two changes in garment per person per year, up to grade 6 schooling for the children; the average expenditure on medical care of families whose food consumption was equal to our poverty line in food; and a roughly imputed rent and fuel were assumed to meet these needs.

The poverty line was estimated for a typical family of six (6) consisting of mother, father, and four (4) children: 2 males 7-9 and 16-19 years old, and 2 females 1-3 and 13-15 years old. For 1965 and 1975 we have available detailed information on prices for each of the 10 regions of the country. These data were used by the Central Bank of the Philippines for arriving at the consumer price index and by us in obtaining the indices of relative price variation. From these data we can estimate directly the minimum budget for clothing, shelter and fuel. The minimum budgets for medical care and education were obtained from other sources - the former from Family Income and Expenditure Surveys, the latter from the Ministry of Education reports. We decided to use linear programming to find the minimum cost basket of food that meets the recommended nutritional requirements of the Food and Nutrition Research Institute (FNRI). Two programs were run for each of the 10 regions for 1965, 1971 and 1975 using the FNRI food table of the Philippines and the Central Bank raw data on prices. One program run allows it to choose fully among the listed items, another adds a set of

constraints that provides for a wider variety in the solution basket (The FNRI food table specifies the nutrient of a long line of Philippine foods.)

The minimum budgets then for each need -- food, shelter and fuel, clothing, medical care and education -- were added up to compose the poverty line for a region. Two sets of poverty line were obtained: A, with an unconstrained food budget, and B, constrained by variety considerations. The results are given in Tables 2 and 3.

The two tables are very revealing as to the level and movement of poverty incidence in the country as well as its variation among regions. The estimated poverty lines for most regions about tripled from 1965 to 1975 from a range of ₱1058-₱1490 to ₱3119-₱4633. The poverty rate, i.e., the percentage of families with incomes lower than the estimated poverty lines, also increased fairly substantially from 36.7 percent in 1965 to 42.1 percent in 1971, to 45.1 percent in 1975. Slightly higher rates of 41.1, 43.8 and 51.5 percent for the years are obtained when B food poverty budgets were used. The corresponding number of families classified as poor were 1.88 million, 2.67 million and 3.09 million, again using the A food poverty line for the same years.

It is to be noted that this rise in poverty incidence took place during a period with a fairly satisfactory rate of economic growth. Two factors need to be considered to explain the trend -- one is the effect of a high and accelerating rate of inflation, the other

the changes in the distribution of income.

Until the first half of the 60's, the Philippines experienced very modest inflation of six percent or lower. Starting 1966, the rate accelerated, gradually at the beginning, but rapidly in the 70's. At its peak, prices rose by about 40 percent in 1974-75. Nominal incomes of the poor rose during this period but at a much slower rate than the consumer price index, thus resulting in a fall in their per capita real income. Evidence for this is found in Mangahas, Quizon and Lim's critique of the National Census and Statistics Office's Family Income and Expenditure Survey (1976); in our own estimate of the movement of per capita real income of the lowest 40 percent of families; and in Central Bank statistics showing declining real wage. The Gini ratio hardly changed at .50. It seems that the decline in the share of the poorest 40 percent of families was not large enough to have caused the worsening of the poverty situation and it might be argued that inflation was the culprit. The impact of inflation is greater the lower the income group since its average consumption is higher. In the Philippines these families dissave. We see this impact even more clearly in the movements of the computed poverty baskets (please see Table 3). Recall that these are the lowest cost baskets for each need type and therefore reflect the prices of the cheapest basic consumption items. Food, which formed the bulk of the poverty baskets, about quadrupled with shelter rising by less than 50 percent for most regions.

Table 2

POVERTY LINE ESTIMATES
(pesos per family of six per year)

Region	Food Basket A	Food Basket B	Medical Care	Rent, Fuel Light & Water	Clothing	Schooling	A*=(1)+(3)+(4)+(5)+(6)	B*=(2)+(3)+(4)+(5)+(6)
				1965				
I	511	636	11	732	177	59	1,490	1,615
II	541	694	14	408	161	59	1,183	1,336
III	430	643	68	456	169	59	1,182	1,395
IV	532	665	21	408	163	59	1,183	1,316
V	510	656	19	720	177	59	1,485	1,631
VI	502	610	11	312	174	59	1,058	1,166
VII	496	582	18	348	172	59	1,093	1,179
VIII	580	671	14	312	169	59	1,134	1,225
IX	580	720	25	576	203	59	1,443	1,583
X	518	681	10	576	178	59	1,341	1,504
				1971				
I	954	1,094	55	1,080	298	107	2,494	2,634
II	1,261	1,274	35	444	269	107	2,116	2,129
III	1,257	1,268	5	492	276	107	2,157	2,168
IV	1,161	1,195	31	432	260	107	1,991	2,025
V	1,142	1,169	36	756	281	107	2,322	2,349
VI	1,054	1,080	47	348	288	107	1,844	1,870
VII	983	1,006	64	396	292	107	1,842	1,865
VIII	1,245	1,308	28	384	281	107	2,045	2,108
IX	928	1,203	20	624	305	107	1,984	2,259
X	942	1,125	22	636	332	107	2,039	2,222
				1975				
I	2,109	2,460	174	1,296	620	194	4,633	4,984
II	2,356	2,817	68	528	676	194	3,822	4,283
III	2,457	2,810	88	564	681	194	3,984	4,337
IV	1,752	2,321	97	492	584	194	3,119	3,688
V	1,701	2,362	78	828	554	194	3,355	4,016
VI	2,270	2,317	68	444	657	194	3,633	3,680
VII	2,388	2,639	72	456	704	194	3,814	4,065
VIII	2,221	2,625	53	492	719	194	3,679	4,083
IX	1,895	2,059	54	720	758	194	3,621	3,785
X	2,031	2,427	110	840	716	194	3,891	4,287

Table 3
Incidence of Poverty

Regions	A		B	
	Number of families (thousands)	Percentage of Total Families	Number of families (thousands)	Percentage of Total Families
		1965		
I	38.5	8.42	48.5	10.59
II	154.4	51.12	173.1	57.31
III	103.0	58.87	118.2	67.58
IV	208.0	28.15	238.4	32.26
V	188.4	29.84	217.9	34.05
VI	137.2	33.70	156.8	38.53
VII	193.3	33.90	214.9	37.70
VIII	419.7	48.80	449.1	52.28
IX	158.5	43.91	172.5	47.78
X	280.5	45.61	314.9	51.20
Total	1881.6	36.71	2104.3	41.05
		1971		
I	71.5	13.63	84.0	16.00
II	194.1	56.11	194.8	56.32
III	169.8	65.[illegible]	170.4	65.53
IV	257.1	30.07	262.4	30.69
V	341.9	39.34	345.9	39.81
VI	243.6	49.12	247.2	49.84
VII	241.6	36.06	247.2	36.89
VIII	592.9	60.50	602.4	61.47
IX	237.0	45.40	269.0	51.54
X	322.2	39.06	355.2	47.05
Total	2671.7	42.09	2778.5	43.78

Table 3. Continued

Regions	A		B	
	Number of Families (thousand)	Percentage of Total Families	Number of families (thousand)	Percentage of Total Families
I	275.8	35.82	312.6	40.60
III	242.5	48.46	288.3	51.67
III	173.2	52.66	185.8	56.48
IV	181.8	27.47	250.5	37.83
V	350.0	39.42	452.0	50.90
VI	285.2	55.07	289.7	55.92
VII	333.2	49.07	363.4	53.53
VIII	497.2	47.99	568.5	54.87
IX	234.5	63.38	242.9	65.64
X	518.5	49.48	578.2	55.17
Total	3,091.9	45.08	3531.9	51.48

Source, E.A.Tan & V Holazo, Incidence of Poverty ina a Segmented Market, the Philippine Case, University of the Philippines Discussion Paper, Dec. 1978

The table also shows how the regional poverty lines varied and how the incidence moved over time in each region. For 1975, the incidence had ranged at 30 percent for Region IV to 58 percent for Region VIII. Two regions experienced a very substantial improvement in standard of life with poverty incidence falling by 30 percent in Region VI and 20 percent in Region IX. The rest of the regions experienced a worsening in poverty incidence at rates ranging from 6 percent to 20 percent. Another evidence of the declining income of the lower income groups is the movement of real wage. Table 4 shows it to be declining for most years of the past decade.

The studies on poverty gave differing values of poverty lines and consequently poverty incidence. The two earlier studies (Abrera, Tan) used a more aggregative basis for establishing poverty lines since they used data for only two population groupings - rural and urban. They also used a higher standard of food consumption - the Food and Nutrition Research Institute's (FNRI) recommended menus. These contained a greater variety of items. Casual observation of the food habits of the poor and on the basis food consumption mix reported by families in the FNRI surveys lead us to find the practicableness of using the more economical budget resulting from a linear program solution..

The studies gave quite consistent results of the movement of poverty incidence over 1965-75 period.

Table 4

Wage Rate Index of Laborers in Industrial Establishment in Manila and Suburbs 1950-1977 (1972=100)

Year	Money Wage Rates		Real Wage Rates	
	Skilled Laborers	Unskilled Laborers	Skilled Laborers	Unskilled Laborers
1950	60.9	41.2	137.8	93.2
1955	59.7	49.7	141.5	117.8
1960	62.7	50.7	133.4	107.9
1965	68.2	60.8	115.2	102.7
1970	90.6	88.4	114.4	111.6
1971	95.3	94.4	105.1	104.1
1972	100.0	100.0	100.0	100.0
1973	105.3	102.6	92.4	90.0
1974	115.1	110.8	75.6	72.8
1975	119.7	120.1	72.7	72.9
1976	124.4	126.2	71.2	72.3
1977	137.5	132.9	72.9	70.4

Source: NEDA Statistical Yearbook

Note: Series with base year (1965=100) shifted to (1972=100) Real wage rate is obtained by deflating money wage rate by the consumer price index (1972=100) in Manila.

After describing the situation, we now proceed to discuss the policies that might have an impact on distribution and welfare.

2. Tax Incidence

The public sector's direct participation in the economy has been rather small. Tax revenue as a proportion of GNP ranged from 10 to 12 percent in the past two decades. On the whole public expenditures were slightly larger than revenues especially in the 70's when deficits financed from money creation and external debt were more frequently incurred. The redistributive impact therefore of fiscal operation has been limited by the small size of government expenditures. In this section we present results of earlier investigations on tax and benefit incidence and extend the analysis to recent years.

The National Tax Research Center (NTRC) undertook two surveys on tax incidence by type of tax in 1961 and 1971. These data have been the basis of studies on tax incidence and other aspects of Philippine taxation. My 1974 survey on incidence government expenditure is the only one done so far on benefits. The incidence of indirect taxes was based on a very detailed estimation from each indirect tax imposed.

A steeply graduated personal income tax has been in effect since independence. Collection from this tax, however, has not been

Table 5
Percentage Distribution of National Income
by Factor Cost, 1960-1975

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977[a/]
1. Compensation of employees	83.97	82.91	78.74	33.96	33.48	31.49	30.52	74.62	75.62	75.70
2. Entreprenuerial prop. income of persons				45.23	45.56	44.51	45.40			
3. General government income from property and entreprenuership	0.17	0.13	0.16	0.17	0.36	0.36	0.24	0.43	.47	0.55
4. Corporate income	3.23	3.13	4.57	3.22	3.08	5.65	4.92	4.58	4.83	5.03
a. corporate tax	1.97	1.54	1.83	1.93	1.56	3.60	2.42	1.75	1.69	1.76
b. corporate savings	1.26	1.60	2.74	1.30	1.52	2.06	2.51	2.83	3.14	3.27
NNP at factor costs	12,086	20,152	34,848	40,960	45,791	58,732	81,038	91,090	106.874	128.571
5. Indirect taxes	7.29	6.77	8.04	8.31	8.16	9.3	11.02	11.28	8.76	8.51
6. Less: Subsidies	0.20	0.28	0.40	0.27	0.27	0.34	0.66	0.75	0.43	0.23
7. Capital consumption allowance	5.54	7.42	8.90	9.38	9.64	9.03	8.55	9.88	9.75	9.44
GNP in purchaser's value	13,833	23,382	41,751	49,599	55,526	71,616	99,948	114,388	132,062	158.253
8. Corporate Income Tax* Corporate Income	61.07	46.91	42.20	60.57	38.84	64.96	49.16	44.64	42.29	36.96
9. Personal Income Tax* Personal Income	0.48	1.23	1.81	2.27	2.05	3.03	1.42	1.67	1.71	

*X 100

[a/] Advance estimates as of December 26, 1977.

Source: 1978 Neda Statistical Yearbook, p. 120.

large for at least two reasons. Average income has remained low and most families have basic personal deductions that exceeded or just equaled their current incomes. A typical family of four children of ages below 21 years would have a total personal deduction of about ₱7500 per year. Only about 16 percent of families had current incomes greater than this amount in 1971, 47 percent in 1975 and a smaller percentage in earlier years. Conscious tax evasion by the higher income groups is supposed to be prevalent. Tax reporting has been poor for non-wage income receivers. Thus we find that revenue from personal income tax contributed an average of about 11 percentage of total revenue over the past two decades.

Corporate income tax formed the larger bulk of revenue from all income taxes. Its contribution to total revenue declined however, from 1973 to 1976. This might be a consequence of the fall in reported corporate income over the same period. There is a question why corporate share in national income should decline when there are advantages to incorporating business for tax purposes. Corporate income tax rates are 25 percent for firms with profits of ₱100,000 or less and 35 percent for those with profits above this amount. Personal incomes which include all incomes of unincorporated enterprise is taxed up to 70 percent. There are likely to be relatively more incorporated enterprises in 1976 than in the early 70s. Collection might have become less effective in recent years as corporations were able to

report relatively smaller taxable incomes and possibly also because of the increasing coverage of tax incentives. Please see Table 5 and 6 for the distribution of national income by factor cost and the distribution of revenue by type of tax. The share of compensation to employees and other incomes exhibited a downward trend from 84 percent in 1971 to 76 percent in 1977. The share of corporate income first went up but declined since 1973. As we see in Table 6, indirect taxes provided the biggest source of national revenue. Moreover its relative share went up over the last 15 years from 45 percent in 1961 to 65.5 percent in 1971 to 74 in 1975.

From the file of income tax returns, the NTRC estimated the incidence of income and property taxes. (Please see Table 7). It is to be noted that thougn personal income tax rates are steeply graduated tax collections tended not to be. In fact the effective tax rates had a flattened U-shaped behavior at fairly low rates of 2 to 6 percent from incomes of ₱500 per year to 10,000. The tax rates rapidly rose from 5 percent to about 18 percent for incomes between ₱10,000 and ₱15,000. Income tax rate for incomes above ₱10,000 was regressive wherein the top income receivers paid a lower rate of 15 percent than those with incomes between ₱10,000 and ₱15,000 per year.

Revenue from indirect taxes came mostly from import duties and specific taxes on tobacco, fuels and oils and alcohol and beverages. The taxes were very regressive in nature as shown by the following

table from the NTRC. (Please see Table 7 a). Tobacco which formed a much larger proportion of consumption of lower income groups had an incidence of 11 percent. It is to be noted that the tax on tobacco was increased further in 1978.

In Table 7a, we show the combined incidence of the two types of taxes and using the data on the size distribution of income for the same year, we obtained the redistributive effects of taxes. We find that there was very little change in the distribution of personal income after both indirect and direct taxes. Both extreme ends of income brackets suffered a slight decrease in relative income for the benefit of the middle brackets. The regressiveness of indirect taxes, especially for the lowest brackets was not offset by the direct taxes.

In the next section we will present the major findings of the study on benefit incidence (Tan, 1975).

3. Incidence of Government Expenditures

The estimation of incidence of government expenditures was based on different assumptions depending on expenditure groupings. Here expenditures were classified according to their dominant characteristic, whether dominantly private and exhaustive, or collective. Some of the former expenditures were taken to be divisible and the benefits traceable to the user; some were divisible but not easily traceable.

Table 6
Percentage Distribution of Taxes by Type
1971-1977

of otal	1972 Total in million ₮	1972 % of Total	1973 Total in million ₮	1973 % of Total	1974 Total in million ₮	1974 % of Total	1975 Total in million ₮	1975 % of Total	1976 [b/] Total in million ₮	1976 [b/] % of Total	1977 Total in million ₮	1977 % of Total
13.3	₮ 899	13.8	₮ 1,649	14.8	₮ 1,079	7.2	₮ 1,429	8.9	₮ 1,748	10.2		
4.3	865	13.3	2,577	23.1	2,421	16.1	2,003	12.4	2,231	13.1		
3.4	292	4.5	451	4.0	469	3.1	437	2.7	483	2.8		
8.9	4,425	68.3	6,451	57.9	11,015	73.5	12,176	75.6	12,551	73.7		
4.8	1,129	17.4	1,935	29.9	3,537	23.6	4,116	25.6	4,290	25.2		
	6,481		11,128		14,984		16,047		17,013			

0, 1977.

Table 6
Percentage Distribution
1971-19

	1971		1972		197
	Total in million ₱	% of Total	Total in million ₱	% of Total	Total in million ₱
Personal Income Tax	₱ 890	13.3	₱ 899	13.8	₱ 1,649
Corporate Income Tax	957	14.3	865	13.3	2,577
Transfer Taxes					
Property Taxes	226	3.4	292	4.5	451
Indirect Taxes	4,610	68.9	4,425	68.3	6,451
Import duties	988	14.8	1,129	17.4	1,935
Specific taxes					
Compensating & sales					
T O T A L T A X E S	6,683		6,481		11,128

P/ Preliminary estimates as of May 30, 1977.

Source: NEDA National Income Accounts.

f Taxes by Type

of tal	1974 Total in million ₩	1974 % of Total	1975 Total in million ₩	1975 % of Total	1976[p/] Total in million ₩	1976[p/] % of Total	1977 Total in million ₩	1977 % of Total
4.8	₩ 1,079	7.2	₩ 1,429	8.9	₩ 1,748	10.2		
3.1	2,421	16.1	2,003	12.4	2,231	13.1		
4.0	469	3.1	437	2.7	483	2.8		
7.9	11,015	73.5	12,176	75.6	12,551	73.7		
9.9	3,537	23.6	4,116	25.6	4,290	25.2		
	14,984		16,047		17,013			

Table 7.a
Incidence of Major Indirect Taxes by
Broad Income Class 1971

	Income Bracket		
	Lowest 500	Middle 3,000-4,000	High 10,000-15,000
Import duties	20	15	12
Sales taxes on non-luxury items	5	1	1
Specific taxes	17	4	2
Tobacco	11	2	1
Fuels & oils	4	1	1
Alcohol & beverages	3	1	1
Other taxes	9	2	2
Compensating tax	5	2	3

Source: National Tax Research Center.

Table 7.b
Redistributive Effects of Taxes on Income and Property, On Production and Sales, and of Total Taxes by Income Class, 1971

Income Class (Pesos)	Percentage of Families	Total Income (₱ thousand)	Per Cent	Effective Rate on Income and Property	Effective Rate on Production and Sales	Effective Rate of all Taxes	Percent Distribution After All Taxes
All income classes	100.0	₱23,714,284	100.00	7.73	14.64	22.36	100.00
Under ₱500	17.3	110,938	0.5	6.70	54.45	61.15	0.2
500 - 999		578,431	2.4	3.34	29.40	32.74	2.1
1,000 - 1,499	24.0	965,995	4.1	2.53	22.33	24.86	3.9
1,500 - 1,999		1,304,067	5.5	2.37	19.76	22.13	5.5
2,000 - 2,499	17.7	1,372,351	5.8	2.53	17.51	20.04	6.0
2,500 - 2,999		1,418,773	6.0	2.54	16.17	18.71	6.3
3,000 - 3,099	12.5	2,736,975	11.5	3.16	14.73	17.89	12.2
4,000 - 4,999	7.5	2,112,879	8.9	3.62	13.87	17.48	9.5
5,000 - 5,999	5.0	1,723,439	7.3	4.98	14.03	19.01	7.6
6,000 - 7,999	6.4	2,769,251	11.7	5.75	13.62	19.37	12.1
8,000 - 9,999	3.6	2,017,560	8.5	4.99	13.08	18.08	9.0
10,000 -14,999	3.7	2,811,168	11.9	17.27	13.53	29.80	10.7
15,000 -19,999	1.1	1,220,236	5.1	22.65	12.50	35.15	4.3
20,000 and over	1.2	2,572,221	10.8	15.87	8.30	24.18	10.6

The government, on the other hand, classifies expenditures by purpose: economic development, social development, administration, and, national defense. Those for economic development consist mainly of the budget for public works, agricultural infra-structure, and other expenditures for the development of natural resources, commerce and industry. Expenditures for social development include those for education, health and social welfare. We assumed that the value of benefits, at least for the current year, was equal to the peso value of the expenditures. Within each of these major expenditure groupings some were considered as mainly private and exhaustive in nature and some collective. For social development for instance, the expenditures for the provision of schooling from grade 1 to college was considered of private and exhaustive nature. And so with health expenditures. The expenditures for the up-keep of the National Museum and the Cultural Center were considered collective in nature.

For private and exhaustive expenditures whose benefits were divisible and also traceable, allocators were obtained from a national survey of households. The survey essentially asked households how much of the services they availed of for the year. We assumed that the distribution of benefits from development expenditures was proportional to income. The benefit from the budget for defense, administration and the development of culture was assumed to have been equally distributed to the population. Tan's paper discusses in greater detail the

specific allocators used. We reproduce below some of the results of the study.

We first give the budget for the different expenditure categories, and then classified each into 3 groups: I. divisible and traceable; II. divisible but not traceable; and III. collective. (Please see Tables 8 and 9). In Table 8, we see the percentage distribution of the national budget among the five major categories. It is seen that between 1961 and 1977, there were very significant shifts in the allocation of the budget with the proportions going to debt services and economizing development increasing quite rapidly. In 1961, they respectively obtained 4.1 and 35.1 percentages of the budget. These percentages rose to 9.6 and 44.6 in 1977. The allocator used for was inherently progressive in the case of defense and neutral in the case of economic development expenditures. The allocators for the divisible and traceable items which were directly obtained gave progressive results. These items which are classified in Group I consist of expenditures for education, health, extension services and social services. With these methods of allocation the progressiveness or regressiveness of public spending therefore becomes dependent on its distribution these three groups of expenditures. The larger the allocation to Group I items, the more progressive the spending would tend to be, the larger to collective goods, the more regressive it becomes.

Table 8

Percentage Distribution of Government Expenditures by Purpose 1970-71 and 1975-76

	1960-61	1970-71	1975-76
1. Administration	9.2	11.4	9.4
2. Economic Development	35.1	28.9	44.6
3. Social Services	36.9	34.7	23.9
4. Defense	13.8	16.8	12.2
5. Others (including debt service)	4.5	8.0	9.6
Total %	100.0	100.0	100.0
Total in 1000 Pesos	₱ 1,411	₱ 4,429	₱22,399

Source: National Economic Development Authority (NEDA) Statistical Yearbook, 1976. Tables 11.2 and 11.3.

Table 11
Size Distribution of Income Before and After Taxes and Benefits

Income Class	Total Families	Total Income	Benefits From Group I	Benefits From Group II	Benefits From Group III	Y+B-T
	(1)	(2)	(3)	(4)	(5)	(6)
Under 1000	2.9	3.4	3.5	3.7	2.3	3.3
1000 - 1999	9.5	9.9	10.0	10.3	9.4	9.9
2000 - 2999	11.7	11.8	11.8	12.0	12.3	11.9
3000 - 3999	11.3	11.6	11.6	11.6	12.2	11.7
4000 - 5999	16.1	16.2	16.2	16.1	17.1	16.1
6000 - 9999	20.1	19.8	19.8	19.6	21.1	19.2
10000 - over	27.8	26.9	29.0	30.1	25.6	27.5

Source: Table IV.1, Tan, E.A. "Philippine Taxation, Government Expenditure and Income Distribution", Japan Economic Research Center - Council for Asian Manpower Studies, Income Distribution in Southeast and East Asia, Papers and Proceedings of the Seminar, Vol. I, Tokyo, Manila, 1975.

As shown in Table 8, there has been a movement away from the more progressive types of expenditures i.e., social development, and toward debt service and economic development. The latter tends to benefit the more advantaged groups in the population, at least in the shorter run. Benefits from administration and national defense may be ignored from the estimation of distribution of benefits as they might be considered as not a part of the net beneficial product (Nordhaus & Tobin, 1971) or that they are intermediate goods (Kuznets, 1941).

The results of the studies on tax and benefits incidence are summarized in Table 11. Here we presented the size distribution of income without, and with each additional type of benefits, and finally of taxes. It is seen that public expenditures had insignificant effect on the size distribution of income. There was no income class whose share in income was affected by more than 5 percent of its share. The redistributive effects of public expenditures could not be expected to have become more progressive in the last few years, as the share of the more progressive items fell as a proportion of the total budget. We may not expect much changes in the progressiveness or regressiveness of taxes. The system of taxation and that of tax incentives are not planned to be changed in the coming few years.

4. Distribution of Cost and Benefits of the Development Program

The government adopted increasingly more aggressive development

Table 9
Items of Expenditures Falling Under Each of the Three Expenditure Groupings
(In Thousands of Pesos), 1979

Items	Group I Divisible & Traceable	Items	Group II "Divisible" but not Clearly Traceable	Items	Group III Collective Goods
Education		Agrarian Reform	34440	Office of the President	223520
Public Elementary	966864	Labor	10965	National Museum	627
Bureau of Private Schools	85222	Highway	411794	National Library	1265
Bureau of Vocational Education	53298	Bureau of Quarantine	1922	National Historical Commission	695
Adult Education	434	Bureau of Forestry	34735	Institute of National Language	431
CAR	1214	Bureau of Mines	5018	Defense	702600
Medical	1893	Department of Commerce and Industry	53474	All Others	251164
Dental	4325	Other Agricultural Expenditures	115714		
Public College	42200				
Local Assessment & Community Development	18533				
Bureau of Plant Industry	25723				
Bureau of Animal Industry	35767				
Rural Health Units	112919				
Hospitals	955440				
Mental Units	16249				
Orthopedic	7612				
Social Hygiene	645				
Department of Social Welfare	14382				
TOTALS	1441720		668062		1180302

Table 10.a
Distribution of Benefits Received by Income Class, 1971
(In Pesos)

Items	Less than 1000	1000-1999	2000-2999	3000-3999	4000-5999	6000-9999	10000 and over
All Items	315	361	427	497	728	904	1586
Group I	166	158	164	246	311	319	445
1. Education	735	134	129	203	245	237	352
Bureau of Private Schools	5	5	9	14	19	24	52
Bureau of Vocational Education	6	8	3	14	11	8	20
State Colleges & Universities	-	-	a	3	4	7	85
Bureau of Public Schools	124	121	109	172	211	197	193
Adult Education	a*	a	a	a	a	a	a
CARE Program	a	a	a	a	a	a	a
Medical Services	a	a	a	a	a	a	a
Dental Services	a	a	a	a	a	a	a
2. Extension Services	10	6	10	13	19	19	32
DLCC	3	2	2	3	5	4	5
Bureau of Plant Industry	3	2	4	4	7	6	9
Bureau of Animal Industry	4	2	4	6	7	9	18
3. Health Services	21	18	23	28	44	58	51
Rural Health Unit	14	13	15	20	24	25	27
General Hospitals	4	5	8	7	12	16	24
Mental Hospitals	3	a	a	1	-	17	-
Orthopedic Hospitals	a	a	a	-	8	-	-
Social Hygiene	a	a	-	a	a	a	-
4. Social Welfare Assistance	a	a	2	2	3	5	10

Table 10.a
(Continued)

Items	Less than 1000	1000-1999	2000-2999	3000-3999	4000-5999	6000-9999	10000 and over
Group II	41	73	108	73	203	302	376
Department of Agrarian Reform	2	8	12	7	18	13	6
Bureau of Public Highways	38	62	88	56	169	262	265
Department of Labor	a	a	1	2	5	10	9
Department of Commerce & Industry	1	3	6	8	11	17	38
Bureau of Mines	-	-	-	-	-	-	38
Bureau of Forestry	-	-	-	-	-	-	28
Bureau of Quarantine	-	-	-	-	-	-	5
Group III - Collective Goods							
Mean of two estimates	108	130	155	178	214	283	765

Note: a means less than one peso (₱1.00)

Table 10.b
Effective Rates of Benefit in Percent by Income Class, 1971

Items	Less than 1000	1000-1999	2000-2999	3000-3999	4000-5999	6000-9999	10000 and over
All Items	53.0	24.0	17.0	14.2	16.6	11.3	8.7
Group I	31.0	10.5	6.6	7.0	6.2	4.0	2.4
1. Education	25.2	8.9	5.1	5.7	4.5	3.0	1.9
Bureau of Private Schools	.9	.3	.4	.4	.4	.3	.3
Bureau of Vocational Education	1.1	.5	.1	.4	.2	.1	.1
State Colleges & Universities	-	-	a	a	.1	.1	.5
Bureau of Public Schools	23.2	8.1	5.2	4.9	4.2	2.5	1.0
Adult Education	a	a	a	a	a	a	a
CARE Program	a	a	a	a	a	a	a
Medical Services	a	a	a	a	a	a	a
Dental Services	a	a	a	a	a	a	a
2. Extension Services	1.9	.4	.4	.4	.4	.2	.2
DLGC	.6	.1	.1	a	.1	.1	a
Bureau of Plant Industry	.6	.1	.2	.1	.1	.1	a
Bureau of Animal Industry	.6	.1	.2	.2	.1	.1	.1
3. Health Services	3.9	1.2	.9	.8	.9	.7	.3
Rural Health Units	2.6	.9	.6	.6	.5	.3	.1
General Hospitals	.7	.3	.3	.2	.2	.2	.1
Mental Hospitals	.6	a	a	a	-	.2	-
Orthopedic Hospitals	a	a	a	-	.2	a	-
Social Hygiene	a	a	-	a	a	a	-
4. Social Welfare Assistance	a	a	.1	.1	a	.1	a

Table 10.b
(Continued)

Items	Less than 1000	1000-1999	2000-2999	3000-3999	4000-5999	6000-9999	10000 and over
Group II	7.7	4.8	4.2	2.1	4.1	3.8	2.2
Department of Agrarian Reform	.4	.5	.5	.2	.4	.2	a
Bureau of Public Highways	7.1	4.1	3.5	1.6	3.4	3.3	1.4
Department of Labor	a	a	a	a	.1	.1	a
Department of Commerce & Industry	.2	.2	.2	.2	.2	.2	.2
Bureau of Mines	-	-	-	-	-	-	.1
Bureau of Forestry	-	-	-	-	-	-	.1
Bureau of Quarantine	-	-	-	-	-	-	a
Group III - Collective Goods							
Mean of two estimates	20.1	8.7	6.2	5.1	4.3	3.5	4.1

Note" a means less than .1 of one percent
- means zero

policy. The strategies used were of more limited impact at the very beginning of post-independence period. During this time, government efforts were devoted to reconstruction of business and residential buildings and plants, and, the major transport facilities. Funds from war damage compensation from the United States and Japan were used for this work. The large import requirements for rebuilding as well as for food were then financed by the war-damage foreign exchange funds. As these got exhausted, the legislated dollar/peso parity of $1/₱2 could not be sustained. A mixture of import controls geared toward industrialization of the import-substitution type were imposed. Effective differential exhcnage rates for favored and not-favored imports were used as a form of incentive and disincentive. Quantitative controls were also imposed through foreign exchange rationing.

The efforts to industrialize seemed to have been partly initiated by the need to reduce imports. But as many students of Philippine development concluded in their studies (Sicat and Power, 1971; ILO-Mission, 1974), the strategy protected "infant" import-substituting industries. These industries were given tax and foreign exchange privileges.[2/] What is to be noted here is that the tradition in Philippine development approach of protecting by various means preferred industries has its origin during this period. Thus, the development

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[2/] Foreign exchange controls were then imposed as well as differential exhcnage rates. Foreign exchange were allocated to preferred imports at the undervalued rates of ₱2/$1. These industries were mostly importing knocked down parts for the "import-substituting" assembly type activities.

strategy of progection of improt-substituting industries was followed by an increasingly more complex and expanded system of incentives. Between 1960 and 1963, import control measures were disbanded. The official exchange rate was adjusted from ₱2/$1 to what was the then prevailing rate of ₱4/$1. Quantitative controls were very much relaxed but they were then replaced by a rather stiff tariff rates that offered as much or even more protection to "infant" industries. In addition these industries were granted tax exemption by the basic Industries Act of 1961.

A wider-ranging system of incentives was established under the Investment Incentives Act of 1967 which was followed by other similar laws. The Board of Investment (BOI), established under this Law was empowered to evaluate firms applying for qualification to receive credit, tax and import incentives.[3/] Criteria for BOI approval of application as a BOI registered firm are based on the employment and export earnings that the company is expected to generate. Every year the Board comes up with its Industrial Priority Plan listing the industries that it plans to grant privileges. Recently the preferred industries included the "pioneering" category. The latter criterion is rather tenuous. As the World Bank Mission Report argued (1976), pioneering activities will quickly be exhausted by definition, and that

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[3/] There is an informal agreement between the BOI and the Central Bank to give BOI-registered companies preference in foreign exhcnage allocation. Joint Legislative-Executive Tax Commission 13th Annual Report, 1971, p. 101.

there is no inherent economic rationale for promoting them. There is a long lists of non-pioneer industries out of which can be selected a number that promote employment and growth possibly faster than pioneer industries. But by using pioneering as a criterion of granting BOI-registration privileges, non-pioneering firms are, at least theoretically, excluded.

The Investment Incentives Act was hsortly followed in 1970 with the Export Promotions Act. But most of the privileges granted to export-oriented industires were already under the former legislation. The latter mainly focused attention to exports. The other major sector that are granted tax exemption, subsidized capital and import privilege is the rural and development banking industry. The over-all rate of privilege might be even higher than the rate for the BOI-registered corporations since the rate of credit subsidy granted to rural and development banks is higher. A few other sectors are granted selected subsidy but this is minor relative to the subsidy granted under the Investment Incentives and the Rural and Development Banking Acts. There is the tax exemption granted agricultural cooperatives but there are only few successful cooperatives in the Philippines. Credit subsidy to agriculture though not unsubstantial has been concentrated on sugar and rice production. The rate of subsidy to agriculture has been increasing however.

A list of laws and/or programs that grant tax credit or import privilege is given in Appendix A in order to obtain a comprehensive picture of the relative sizes of subsidies given to various sectors. On the whole, the incentives granted have been heavily concentrated in large industrial enterprises. The Joint Legislative-Executive Tax Commission (JLETC), now the National Tax Research Center (NTRC) undertook in 1971 a small study to estimate the revenue lost due to various tax incentives. In this year it estimated the tax lost as follows: ₱113 million through the Investment Incentives Acts; ₱42 million from Textile Assistance Act; ₱24 million through the Basic Industries Act of 1961; (the latter two are a part of the incentives for import-substituting industries) and ₱14 from other incentives. These totalled almost ₱200 million in 1971 and amounted to a little over half of non-personal direct taxes of ₱381 million or about 22 percent of total direct taxes of ₱886 million. A new estimate of lost revenue due to tax incentives was done by the NTRC for 1976. They found this to have amounted to about ₱500 million, or approximately 20 percent of business taxes.

It is seen, though in mostly qualitative way, that there is substantial variation in the type and equivalent value of the subsidy from the incentives granted to different industrial sectors. Within each industrial sector, the subsidy from the incentives tend to be unequally distributed among firms grouped by size and location. As stated above, the bulk of incentives go to firms that obtained

registration with the Board of Investment. The Board tended to cater to the larger firms of the industries being promoted. Part of the reason for this tendency is the cost of applying for BOI approval. A detailed feasibility study has to accompany an application form. Firms without any expertise in preparing a project study would have to hire consultants. An additional cost is incurred in following up the progress of the application. Obtaining registration status and in actually getting the incentives, say credit, once a firm is registered, can be a long process that costs high. Most of these costs are fixed cost. It thus becomes more worthwhile for larger firms to apply for BOI approval.

In addition to the cost of application and red tape, the cost of information can also be large. It will tend to increase with distance from Manila (infinite when there is absolutely no knowledge about the privilege) and decrease with firm size. One can assume fairly safely that the larger firms which have more educated managers and owners are more knowledgeable about the economic and political environment in which they move.

This reasoning applies as well to the allocation of other government subsidy.

In the following section we will attempt to estimate the redistribution impact of credit and tax incentives. Tax incentives

are granted in the form of exemption from income taxes. There are only two (2) types of income taxes in the Philippines -corporate tax and personal income tax. Unincorporated enterprises pay personal income taxes. As mentioned earlier, there are only two corporate income tax rates - 25 and 35 percent for taxable incomes of ₱100,000 and below, and above ₱100,000, respectively. On personal income, there is a steeply graduated schedule of rates starting from 3 percent for net income of ₱2000 to 70 percent for net income above ₱300,000. A tax rate of 36 percent is imposed on an income of ₱32,000 to ₱26,000. These tax rates can be looked at as the possible rates of subsidy for the tax exempt firms.

5. Credit Policy

An analysis of the redistributive impact of credit incentives will have to start at a description of the Philippine monetary and financial system. This is characterized by two features. First is that it is a very strongly intervened market.[4/] Second is that the

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[4/] Monetary authority is vested in the Monetary Board of the Central Bank. Its membership consists of the Ministeres of Finance, Planning and Industry, the Governor of the Development Bank of the Philippines, and three other appointed members - the governor of two representatives of the private sector.

monetary authority is not independent of the executive branch of the government. Monetary and related policies are very much a part of the whole set of economic policies of the government: fiscal, foreign trade, external debt, industrialization and agricultural development. The various incentives acts though intended principally to grant tax incentives, provide, directly or indirectly, credit and import incentives. All BOI-registered corporations qualify for credit allocation at public and semi-public financial institution. By informal agreement with the Central Bank they are also granted preference in the allocation of foreign exchange. For tourist industries, such privileges are provided for in the law (P.D. 535). Financial institutions have been granted very substantial interest rate subsidy through the rediscount window of the Central Bank and in the case of the rural and private development banks an outright grant of funds for capitalization. Subsidized credit thus takes two forms -- one by Central Bank lending to private rural, development and commercial banks; the other by giving subsidized credit to private borrowers at public banking institutions -- the Development Bank of the Philippines (DBP), the Philippine National Bank (PNB) and the rural banks.

The government has followed a low interest rate policy. The Central Bank grants lenient rediscounting privilege to all banks at very low rates of interest offering them a wide margin between rediscount and lending rates. Ceiling rates lower than corresponding market rates have been imposed on selected instruments: savings and

time deposits, secured and unsecured loans, and in the last three years, money market instruments. Most financial institutions observe the interest regulations on deposits. There is evidence, however, that there has not been a general observance by private banks of the ceiling on loan rates. On the other hand, public and publicly-supported banks have been following the regulations. Thus rates of interest on credit differed between what private and non-private financial institutions charged. And since the ceiling was imposed on only a few selected instruments, financial institutions provided new substitute instruments that were not covered by the regulations. The use of money market instruments for large interbank and company placements and borrowing evolved in the 70's. These catered mainly to short-term credit needs to cover reserve deficiencies on the part of banks, and cash flow problems of companies. The interest rate on money market instrument fluctuated between 12 percent and percent during the part of the 70's. The activities of many financial institutions, including investment banks got diverted to playing in the money market as a consequence of the attractive rates.

Private financial institutions being profit-making institutions were able to charge effective rates higher than the ceiling on lending rates. A common method used was to require portions of the loan to be deposited at the lending bank for a time period; to deduct the interest charges from the loan proceeds, and to charge additional interest in the form of service fees. Lending rates thus differed

depending on where a loan obtained, i.e. whether from public and semi-public or from private banking institutions. There are no published report on distribution of loans by size, only scattered evidence is available. In Table 12 we find the distribution of loans granted by farm size by all-banks. It is seen that the bulk of the loan went to large borrowers. Espino (1978) found that less than 10 percent of DBP loans were to small borrowers.

A third market, that for loans from non-institutional sources prevail. The rate at this source of financing could be as high as 320 percent per year. Unfortunately this source of credit cater to the small borrowers especially in trade and agriculture. It was found, however, that farmers have increasingly reduced their reliance on this source of finance. Please see Table 13.

With regard to earnings on financial assets the rates also vary quite widely. The ceiling on deposit rates set the minimum value and the market rate on money market transactions the maximum. We see the rate differential in Table 13. The rates ranged as widely as 6.0 percent for savings deposits and 20 percent for money market instruments in the third quarter of 1974. There were wider fluctuations in money market in the early 70's with the rate reaching up to 35 percent.5/

It is to be noted that the minimum placement in money market instruments has been very large, earlier at ₱50,000, recently at

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5/ Informal sources, as the series collected by the Central Bank started in 1974 only.

Table 12
Interest Paid in Cash or in Kind
Per Season Per ₱1000Borrowed,
71 Rice Farmers, Central Luzon, 1973

Interest paid/₱100 borrowed		Farms Reporting	Interest*
Range	Average	Per cent	
cavans of palay/season			
1.0 or less	0.6	41	42
1.1 - 2.0	1.7	42	119
2.1 - 3.0	2.3	13	161
3.1 - 4.0	3.3	1	231
4.1 - 5.0	4.6	3	322
Total/average	1.5	100	105

*Equivalent annual interest rate, computed at ₱35/cavan.

Source: Manto, J.M. and R.D. Torres, Sources and Cost of Credit to Rice Farmers in Central Luzon, NFAC/Department of Agriculture and Natural Resources, Quezon City, 1974.

Table 13

Volume of Production Credit To Recipients of Credit, By Farm Size, 1965 and 1974

	1965 Formal Credit Received[b]			1974 Formal Credit Received[d]		
	No. of Farms (000)[a]	Volume of Credit (in ₱ M)	% Share	No. of Farms (000)[c]	Volume of Credit (in ₱ M)	% Share
FARM SIZE (in has.)						
less than 1 ha.	1573.2	26.8	1.6	319.4	45.9	0.72
1 to less than 3 has.				1117.6	1195.3	18.72
3 to less than 5 has.	485.5	1701.6	98.4	558.0	517.11	8.09
5 to less than 10 has				243.8		
10 to less than 25 has.	102.2	n.a.	n.a.	101.1	4628.29	72.47
25 to less than 50 has.				8.6		
Above 50 has. ⟶	4.3	n.a.	n.a.	5.6		
T o t a l	2166.2	1728.4	100		6386.6	100

[a] Using BCS 1961 Agricultural Census.

[b] Using Ad Hoc Committee to study the Agri. Credit System in the Philippines.

[c] Using NCSO 1971 Agricultural Census.

[d] Using TBAC Subcommittee Reports with assumptions for credit distribution in 1974 as follows:

less than 1 ha.
- a) 1/2 of ACA loans ₱30.1M
- b) 1% of M99 and MM loans ₱15.8M

1 less than 3 has.
- a) 1/2 of ACA loans ₱30.1M
- b) 75% of LBP loans .24M
- c) 70% of M99 and MM loans ₱1106.2M
- d) 1/2 of loans to tobacco ₱58.75M

Table 13 (continued)

3 less than 5 has.	a) 29% of M99 and MM loans ₱458.38M b) 25% of LBP loans .08M c) 1/2 of loans to tobacco ₱58.75M
over 5 has.	Residual = Total Production Loans '74 - above ₱3686.6M

Sources: BCS 1961 Agricultural Census;
O. Sacay, "Small Farmer Credit in the Philippines", Manila, (October 1972);
NCSO 1971 Agricultural Census;
TBAC Subcommittee Reports.

Table 14

Interest Rates on Selected Instruments, 1970-77

	Rediscount Rates			Deposit Rates				Loan Rates	
	Comm'l. Banks	Rural Banks	Development Banks	Savings: Comm'l Banks	Savings: Rural Banks	TD_1 360 days	TD_2 540 days	Unsecured	Secured Loans
	4.00[12]		4.00[12]						
	5.75		5.75						
1970	7.50		7.50	6.0	6.0	7.0	8.0	14.0	12.0
1971	"	2.0;3.0[1]	"	"	"	"	"	"	"
	"	3.0;6.0[2]	"	"	"	"	"	"	"
1972	"	"	"	"	"	"	"	"	"
1973	"	"	"	"	"	"	"	"	"
1974	"	"	"	6.0	6.5	9.5[3]/10.0[4]	11.0[13]/11.5[14]	"	"
1975	"	1.0;5.0[5]	"	"	"	"	"	"	"
1976	"	"	"	7.0	7.5	10.0[6]/10.5[7]	11.0[8]/11.5[9]	"	"
1977	2.0	1.00;5.00	2.0	7.5	7.5	10.5	11.5	14.00+	12.00
1978	"	"	"	"	"	"	"	2.0[11]	+2.0[11]

[1] Rural Banks operating for not more than 2 yrs.; 3.0% for other eligible papers.
[2] Rural Banks operating for more than 2 yrs.; 6.0% p.a. for other eligible papers.
[3] Comm'l banks
[4] Rural banks
[5] 5.0% for other eligible papers
[6] for comm'l banks
[7] for rural banks
[8] for comm'l banks
[9] for rural banks
[10] for rural banks
[11] 2.0% service charge
[12] 4.0% for production, importation and distribution of rice and corn.
5-3/4% secured borrowings by eligible credit instruments.
7-1/2% on borrowings based on all other credit instruments.
[13] for commerical banks
[14] for rural banks

Source: CB Annual Reports

Table 14a

Money Market Rates, Quarterly, 1974-1978

		Money Market Rate
1974	1	13.990
	2	20.300
	3	15.299
	4	20.706
1975	1	16.647
	2	10.209
	3	14.884
	4	18.290
1976	1	13.290
	2	12.079
	3	11.904
	4	14.260
1977	1	13.328
	2	13.263
	3	11.108
	4	12.052
1978	1	10.013
	2	9.860
	3	11.750
	4	12.650

Source: Central Bank Review.

₱100,000. Only companies and private individuals with large cash flows can place money in these instruments. The majority of wealth-holders could only place their savings in regular deposits. It can therefore be argued that there is inequality in financial policies where small borrowers use high-cost credit and small savers place their savings in low-yielding financial assets.

So far we discussed the interest rate structure of instruments that are available to private borrowers and lenders. The analysis will not be complete and valid if the subsidy granted financial institutions is omitted. Banking and other finance activities are an important industry here and probably the most profitable. There has been a policy to develop this industry. The strategy followed was similar to that for economic growth - the granting of incentives. The Rural Banking Act (Please see Appendix A) provided rural banks a grant of up to 50 per cent of initial capital, tax exemptions and import privileges. Private development banks are also granted similar but lower rates of subsidy. In addition to these they are granted generous rediscounting privilege at extremely low rates of interest. In 1965 for instance, when their lending rate was 12 to 14 per cent they could rediscount up to 100 per cent of their loans at 2-1/2 per cent. In 1978, the margin was 14 to 16 per cent lending rate to five(5) percent rediscount rate. Commercial banks also obtain subsidy since they could borrow from the Central Bank at rediscount rates that offered them as much as 8 percentage points spread. In 1978 ceiling loan rate was 16 per cent, rediscount was 8 per cent.

The size of the spread has been wide over the whole postwar period. For all banking institutions, the loan ceiling on deposit rates permit them to obtain funds at lower than market rate. If they needed additional funds they could borrow from the Central Bank at about the same rate as the ceiling rate on deposits.

As we discussed above the subsidy granted to banking institutions was very large. The credit subsidy to rural and developing banks might be the largest given to any single industry. For 1977 alone their outstanding credit at the Central Bank was ₱2706 million. Assuming a subsidy rate of say 50 percent of the rediscount-lending spread of 9 percentage points, or the equivalent rate of 4.5 percent per year, the value of the subsidy would amount to ₱112 million. Commercial banks' outstanding credit was ₱2621 million in the same year. Assuming the same rate of subsidy of 50 percent of the 8 percentage point spread, or the equivalent of 4 percent, subsidy would amount to ₱105 million.

For depositors, the rate of disincentive for 1976 may be taken to be a 4.5 percent interest differential, i.e. assuming the market rate to be 12 percent. The ceiling on savings deposit was 7.5 percent. The value of the disincentive in 1977 on total savings deposits of ₱11,536 million would approximate ₱519 million. On time deposits of ₱6057, the disincentive would be about ₱242 million (assuming the same interest rate differential of 4 percent. The disincentive

Table 15
Selected Developmental Subsidies and Disincentives
(in Million of Pesos)

Value of Tax Loss from preferred industries '(1976)'	₱500
Subsidy to Banks[2/]	
Rural Banks (1977)	65
Development Banks (1977)	57
Commercial Banks (1977)	105
	₱227
Subsidy to Development and Rural Bank Borrowers[3/]	
Development Banks	213
Rural Banks	57
	₱270
Disincentive to depositors[4/]	
Savings deposits (1977)	519
Time deposits (1977)	272
	₱891

Sources and method of estimation

1/ National Tax Research Center Annual Report, 1976.

2/ Central Bank Statistical Bulletin 1977. Subsidy was estimated as 50 percent of the lending-rediscount rate spread of 9 percent for rural and development banks and 8 percent for commercial banks, i.e. a subsidy of 50% and 4.0% for the semi public and private banks, respectively.

3/ Subsidy to development and rural bank borrowers was estimated to be equal to a lending rate differential of 2 percent for these bank and other bank sources of funds. The outstanding loans at these two banks amounted to ₱10,665 million for development banks and ₱2897 for rural banks. CB Statistical Bulletin, 1977.

4/ Disincentives to savings depositors was calculated as the difference in what was the likely market rate of 12 percent and the ceiling rate of 7.5 percent multiplied by the deposits in 1977 of ₱11,536 million. For time depositors the same interest rate differential was assumed and multiplied by the time deposits in 1977 of ₱6057.

is likely to affect small savers since they face fewer financial asset choices than bigger wealth holders.

We summarized the estimated subsidy and disincentives for credit and tax exemptions in Table 14 in order to obtain some dimensionof the relative sizes of incentives and disincentives of the development strategies.

6. Concluding Remarks

The Philippines has made very substantial economic progress as indicated by a growth rate of national income of about 5 percent per year, by the development of its institutions and physical infrastructure, and by the increasing level of schooling attained by the population. Yet the various studies on income distribution and poverty showed that the gains from economic development have not "trickled" down well enough and that indeed the degree of inequality has not declined with the incidence of poverty even ririsng in the past 10 years. The poor performance in raising relative as well as absolute standard of life of the majority of the people could be attributed to what we consider to be a highly regressive set of development strategies adopted. The regressiveness of development strategies was to some extent exacerbated by a regressive fiscal policy. Only a small part of expenditures was distributed progressively and taxes were on the whole regressive. In recent years, however, the issue of inequality and

poverty has frequently came out in political statements. Several programs have been plannned for this current Five Year Development Plan (1978-78). These are geared to improving health facilities, housing and elementary education of the lower income and rural groups. There is also to be a larger amount of credit for small farmers and fishermen. There is no plan, however, to change the over-all development strategy. The same set of tax, tariff, credit and import incentives will remain in force. We cannot, therefore, expect very significant improvements in the relative incomes of the poor as the major subsidies granted will tend not to be directed to them. Even if the subsidy to education, housing and health is increased, the increment is not likely to offset the large allocation for development purposes. The paper argues for changes in development strategy and taxation. Such changes will probably result in greater efficiency in resource allocation. At this time there is doubt as to the economic rationale of having such a wide-ranging set of incentives. It will take dedicated efforts to tediously evaluate the efficiency of the policies followed.

Tax Monthly June 1978

Appendix A

TAX INCENTIVES IN THE PHILIPPINES
(FIRST OF TWO PARTS)

A. Major Tax Incentive Laws

1. Investment Incentives Act (RA 5186, as amended)

a. Incentives to Registered Enterprises

1. Registered Enterprises

a. Deduction of organizational and pre-operational expenses from taxable income over a period of not more than ten years from start of operation.

b. Deduction of labor training expenses from taxable income equivalent to 1/2% of expense but not more than 10% of direct labor wage.

c. Accelerated depreciation.

d. Carry-over as deduction from taxable income of net operating losses incurred in any of the first ten years immediately following the year of such loss.

e. Exemption from tariff duties and compensating tax on importation of machinery equipment and spare parts within seven years from registration.

f. Tax credit equivalent to 100% of the value of compensating tax and customs duties that would have been paid on machinery, equipment and spare parts (purchased from a domestic manufacturer) had these items been imported.

g. Tax credit for tax withheld on interest payments on foreign loans provided such credit is not enjoyed by lender-remittee in his country and registered enterprises have assumed liability for tax payments.

h. Right to employ foreign nationals in supervisory, technical or advisory positions within five years from registration.

i. Deduction from taxable income of reinvested undistributed profits in the year reinvestment was made of a certain percentage of the amount of undistributed profits, or surplus transferred to capital stock for procurement of machinery and equipment and other expansion.

j. Anti-dumping protection.

k. Protection from government competition.

l. Tax credits equivalent to sales, compensating and specific taxes and duties on supplies, raw materials and semi-manufactured products used in the manufacture, processing or production of export products.

m. Additional deduction from taxable income of direct labor cost and local raw materials utilized in the manufacture of export products but not exceeding 25% of total export revenues for producers, 10% for traders and 50% for service exporters.

n. Preference in grant of governmental loans.

2. Pioneer Enterprises:

In addition to the above incentives given to registered enterprises, investors in the pioneer enterprises are entitled to the following:

a. Exemptions from all taxes under NIRC, except income tax on a gradually diminishing percentage;

b. Post-operative tariff protection;

c. Employment of foreign nationals within five years of operation or even after said period in exceptional cases.

b. Incentives to Investors

1. Registered Enterprises:

a. Basic rights and guarantees.

b. Right to repatriate investments and remit earnings.

c. Freedom from expropriation of investments.

d. Freedom from requisition of investments.

e. Protection of patents and other proprietory rights.

f. Exemption from capital gains tax on disposition of capital assets provided proceeds of sales are invested in new issues of capital stocks of a registered enterprises within six months from the date gains were realized.

g. Preference in grants of GSIS and SSS loans for purchase of shares (for members only).

2. Pioneer Enterprises:

In addition to the incentives given to registered enterprises, investors in the pioneer enterprises are given the following:

a. Tax allowance to the extent of actual investment, but not to exceed 10% of taxable income; and

b. Tax exemption on sale of stock dividends provided sale occurs within seven years from the date of registration.

1.1 Estimated Revenue Loss*

a.	Tax deductions from Taxable income	- ₱121.06 million
b.	Tariff duties exemption	- 110.64 million
c.	Tax Credit	- 32.78 million
	TOTAL	₱264.48 million

*This estimate and subsequent estimated revenue losses are for CY 1976 only.

1.2 Justifications

a. To encourage Filipino and foreign investments in projects that would develop agricultural, mining, and manufacturing industries;

b. To increase exports and bring about greater economic stability;

c. To provide more employment opportunities and raise the standard of living of the people; and

d. To provide for an equitable distribution of wealth.

2. Export Incentives Act (Ra 6135, as amended)

a. Incentives Granted

1. Registered Export Producers:

a. Employment of foreign nationals
b. Expansion re-investment deduction
c. Anti-dumping protection.
d. Protection from government competition.
e. Deduction of labor training expenses

In case of pioneer enterprises, they are entitled to the following additional incentives:

1) exemption from all taxes under the NIRC, except income tax;

2) post-operative tariff protection; and

3) employment of foreign nationals.

2. Registered Export Traders:

a. Tax credit

b. Deduction from taxable income for the first five years from registration, an amount equivalent to 10% of its total export sales for the five years after registration for those who extend certain financial assistance to registered export producers, etc.

3. Registered Service Exporter:

a. Income tax deduction for five years from date of registration.

b. Those producing television, motion pictures or musical recording in the Philippines and exports them directly or through a registered export trader are entitled to:

1) tax credit; and
2) exemption from payments of duties and taxes on importation of capital equipments.

b. Additional Incentives to Registered Exports

Producers -

For engaging in industry dispersal projects they shall be allowed:

1. Double direct labor cost in computing the reduced income tax;

2. To apply in payment of taxes that may be due to the National Government, an amount equivalent to 100% of necessary infrastructure works; and

3. Avail either of the net operating loss carry-over provision in Sec. 7(e) of RA 5186, or an additional deduction from taxable income equivalent to 1% of the increment of its export sales for using a new brand name.

.2.1 Estimated Revenue Loss*

a.	Deductions from Taxable income	- P21.23 million
b.	Tax and Tariff exemption	- 13.29 million
c.	Tax Credit	- 18.65 million
	TOTAL	P53.17 million

*This estimate and subsequent estimated revenue losses are for CY 1976 only.

2.2 Justifications

a. To actively encourage, promote, and diversify exports of services and of manufacturers utilizing domestic raw materials to fullest extent possible;

b. To develop new markets for Philippine products;

c. To attain a rising level of production and employment;

d. To increase foreign exchange earnings and hasten the economic development of the nation; and

e. To assure that the benefits of development accrue to the Filipino people.

e. Tourism Incentive Program (PD 535)

a. Incentives

1. Registered Tourism Enterprises:

a. 50% of foreign exchange earned in the first five years from the start of operations shall be deductible from net taxable income, subject to other provisions of Sec. 10 of RA 6135 and rules and regulations to be promulgated by the authority.

b. A net operating loss incurred in any of the first ten years of operation shall be carried over as a deduction from taxable income for six years following such loss as provided for in Sec. 7(c), RA 5186.

c. A tax credit shall be granted for taxes withheld on interest payments on foreign loans as provided for in Sec. 7(f), RA 5186, and defined under Section [illegible] interest.

d. Exemption from real estate taxes on land improvements and building shall be granted for the first five years from the start of operations.

e. Importations of machinery and equipment, and spare parts shipped with such equipment shall not be subject to tariff duties and compensating tax within seven years from the date of registration with the authority, subject to the other provisions in Sec. 7(d), RA 5186.

f. A tax credit equivalent to 100% of the value of the compensating tax and customs duties that would have been paid on machinery and spare parts had these items been imported shall be given to the registered tourism enterprise who purchases machinery, equipments and spare parts from a domestic manufacturer, and another tax credit equivalent to 50% thereof shall be given to the said manufacturer subject to other provisions in Sec. 7(e), RA 5186, and defined under Sec. 3(j) thereof.

g. Undistributed profit or surplus which a registered tourism enterprise reinvests shall be allowed as a deduction from its taxable income in the year such reinvestments were made, subject to other provisions of Sec. 7(h), RA 5186, to the extent of:

1) 50% for expansion of registered tourism facilities within the Greater Manila area;

2) 75% for expansion of registered tourism facilities outside of Greater Manila area;

3) 75% for the expansion of existing registerred tourism facilities in Greater Manila to additional facilities outside of Greater Manila.

In addition, they are also entitled to those granted under Sec. 10, 11 and 12 of RA 5186, such as:

1) Preference in grant of government loans;
2) Private financial assistance; and
3) Loans for investments.

2. Philippine Nationals Investing in Registered Tourism Enterprises:

a. An investment allowance shall be permitted as a deduction from the investors taxable income to the extent of his actual investment, but not to exceed 10% thereof as provided for in Sec. 6(1), RA 5186.

b. Exemption from income tax on the portion of the gains realized from the sale, disposition, or transfer of capital assets, equal to the portion

of the sales proceeds that is invested in new issues of stock, of, or in the purchase of stock owned by foreigners, in registered tourism enterprises, within six months from the date the gains were realized subject to the other provisions of Sec. 6(h), RA 5186

3. Foreign Nationals Investing in Registered Tourism Enterprises:

Exemption from withholding tax on dividends remitted abroad to foreign investors.

3.1 Estimated Revenue Loss

a.	Tax deductions from taxable income	- ₱ 22.04 million
b.	Tax and Tariff exemption	- 105.80 million
c.	Tax Credits	- 0.18 million
	TOTAL	₱128.02 million

3.2 Justifications

a. To encourage and promote tourism in the Philippines particularly in providing services to foreign tourists and travelers in order to increase foreign exchange earnings.

b. Tax incentives are granted in order to encourage and hasten the establishment of hotel and other tourist-oriented facilities necessary to meet the requirements of the tourist traffic.

4. Agricultural Investment Incentives Act (PD 1159)

a. Incentives to Investor

1 Registered Agricultural Enterprises:

a. Protection of patents and other proprietory rights.

b. Exemption from capital gains tax on disposition of capital assets provided proceeds of sales are invested in new issues of capital stock of a registered enterprise within six months from the date gains were realized.

2. Pioneer Agricultural Enterprises:

In addition to the incentives given to agricultural registered enterprises, Philippine nationals investing in a pioneer agricultural enterprise are given the following:

a. Tax allowance to the extent of actual investment but not to exceed 20% of taxable income.

b. Exemption from capital gains tax on disposition of capital assets provided proceeds of sales are invested in the purchase of stock owned by foreigners in pioneer enterprises within six months from the date gains were realized.

c. Tax exemption on sale of stock dividends provided sale occurs within seven years from the date of registration.

b. Incentives to Enterprise

1. Registered Agricultural Enterprises:

a. Deduction of organizational and pre-operational expense from taxable income over a period of not more than ten years from start of operation.

b. Accelerated depreciation.

c. Carry-over as deduction from taxable income of net operating losses incurred in any of the first ten years of operations for the six years immediately following the year of such loss.

d. Exemption from tariff duties and compensating tax on importation of machinery, equipment and spare parts within seven years from registration.

e. Tax exemption on breeding stocks and/or genetic materials imported within seven years from date of registration of the enterprise.

f. Tax credit equivalent to 100% of the value of compensating tax and customs duties that would have been paid on machinery, equipment and spare parts (purchased from a domestic manufacturer) had these items been imported.

g. Tax credit for tax withheld on interest payments on foreign loans provided such credit is not enjoyed by lender-remittee in this country and the registered enterprise has assumed liability for tax payment.

h. Right to employ foreign nationals in supervisory, technical or advisory positions within five years from registration.

i. Deduction from taxable income of reinvested undistributed profits in the year reinvestment was made of a certain percentage of the amount of undistributed profits or surplus transferred to capital stock for procurement of machinery, equipment, spare parts, breeding stocks and genetic materials and others expansion.

j. Anti-dumping protection.

k. Deductions of labor training expenses from taxable income equivalent to 1/2% of expenses but not more than 10% of direct labor wage.

l. Deduction of research and development training expenses from taxable income equivalent to 25% of expenses but not more than 10% of taxable income, over a period of seven years from date of registration.

m. Tax credit equivalent to 100% of necessary infrastructure works undertaken in areas designated as necessary for industry dispersal or in areas deficient in infrastructure.

n. Deduction from taxable income not exceeding 30% of freight and transportation expenses incurred within a period of five years from date of registration.

o. Preference in grant of government loans.

p. Private financial assistance.

q. Loans for investments.

2. Pioneer Agricultural Enterprises:

In addition to the incentives given to registered agricultural enterprises, pioneer agricultural enterprises are given the following:

a. Exemption from all taxes under the NIRC, except income tax, from the date the area of investment is included in the Agricultural Investments Priorities Plan to the extent of:

1) 100% for the first 3 years;
2) 75% for the 4th through the 5th years;
3) 50% for the 6th and 7th years;
4) 25% for the 8th and 9th years; and
5) 10% for the 10th year.

b. Post-operative tariff protection to an extent not exceeding 50% of dutiable value of imported items similar to those produced by a pioneer enterprise, unless a higher rate or amount is provided for in the Tariff Code and pertinent laws.

d. Special Export Incentives for Registered Agricultural Enterprises

1. Tax credit equivalent to the sales, compensating and specific taxes and duties on the supplies, raw materials and semi-manufactured products used in the manufacture, processing or production of export products.

2. Deduction from taxable income of direct labor cost and local raw materials utilized in the manufacture of export products but not exceeding 25% of total export revenue.

3. Simplified export producers as provided under PD 930.

4.1 Estimated Revenue Loss - No available data.

4.2 Justifications

a. To pursue further the objectives of attaining self-reliance in our basic requirements for food, raw materials and energy.

b. To hasten rural development in order to bring about a more equitable distribution of wealth; and

c. To attain a desirable balance in the development of the agricultural and industrial sectors of our economy.

(To be continued)

AMENDING THE TAX-FREE IMPORTATION PRIVILEGE

PRESIDENTIAL DECREE No. 1352

IMPOSING A FIVE PERCENT CUSTOMS DUTY AND FIVE PERCENT INTERNAL REVENUE TAX IN LIEU OF THE DUTY AND/OR TAX-FREE IMPORTATION PRIVILEGE.

WHEREAS, the policy enunciated under Presidential Decree No. 770 is to rationalize and harmonize the fiscal incentives granted under existing laws in order to conserve government revenues;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution, do hereby decree:

SECTION 1. All importations which are presently exempt from customs duties and/or internal revenue taxes under the provisions of any general or special laws shall be subject to a 5 percent customs duty and 5 percent internal revenue taxes subject to the same limitations and conditions prescribed under such law, if any. The duty and tax imposed herein shall be computed in accordance with the applicable provisions of the Tariff and Customs Code, as amended, and the National Internal Revenue Code of 1977, respectively.

The customs duty and internal revenue taxes imposed under this section shall not apply to the following importations:

1. Those which are exempt in pursuance of or in compliance with international treaties or commitments, such as the ADB-RP Host Agreement (1966); the 1947 Convention on Privileges and Immunities of the United Nations and its specialized agencies; the United States Agency for International Development-RP Agreement; the 1947 Military Bases Agreement; and other similar treaties or commitments;

2. Those which are exempt under Section 17 of Presidential Decree No. 66;

3. Those which are exempt under Section 12 of Presidential Decree No. 87;

4. Those which are exempt under Presidential Decree No. 215;

5. Those which are exempt under Section 1 of Presidential Decree No. 292;